

# POLICY BRIEF

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## The future of the grain sector in Latvia

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Wheat is the main agricultural commodity produced in Latvia in terms of: number of farms, cultivated area, export volume, and total farm income. Production, marketing and export capacities in the sector are well developed and thus for farmers, wheat has become a strategic cash crop offering high profits. This has led to an on-going farm concentration process and intensification of farming. Wheat growing is more developed in medium and large-scale intensive and highly modernised specialised grain farms. Latvia is a net exporter of grain and the structure of crop production in Latvia is largely influenced by the price levels in the world stock market. Given the high capacity of crop production and the small size of the local market, exports are of utmost importance in the grain sector. Exports are also crucial given the historical experience the sector has had with the low discipline of payments among buyers in the local market. Over recent years, export volumes have been increasing due to the development of several rather strong cooperatives in the field of crop production in Latvia.

The wheat sector is presently characterised by a high degree of vertical market integration and globalisation of trade, and strong organisations securing farmers' needs at the policy-making level. However, while economically the sector is doing well, there are growing environmental and social challenges that have to be faced. On the one hand, the sector is forced to engage in discussions with groups accusing the sector of unsustainable practices. On the other hand, it faces the consequences of practices that have dominated in the sector during the last decades.

The grain sector is arguably the most successful agricultural sectors in Latvia. However, it is facing challenges that will fully manifest themselves during the next couple of years. Apart from sustainability challenges the sector is already forced to discuss, it also has to think about the erosion of institutional arrangements that have allowed the sector to flourish, potential shifts in global grain markets and infrastructural limits. In order to continue, the sector will be forced to redefine the principles it uses to operate.

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## Key messages

- The efficiency and competitiveness of farms are very much dependent on investments farmers are willing to make. Thus, the presence and significance of financial actors becomes ever more apparent in the sector. Access to financial instruments and the engagement with financial sector has allowed farmers to overcome unexpected shocks, to invest in production and to improve their financial literacy. However, the loans farmers take also make them dependent on financial actors. Farmers with debts will be less able to change their farming practices and will be more sensitive to price shifts.
- A somewhat similar conclusion can be made about the growing sophistication of production. Investments in increasingly technologically sophisticated machinery limit farmers possibilities to switch to production of other commodities - they would be bound by the limitations of the technologies they have purchased. Thus, in the case of unexpected sectoral shocks, these farmers would not be able to leave.
- Farmers are exposed to market related and environment related risks. These risks need to be recognised as real rather than hypothetical. They can be fought by strengthening institutional instruments such as insurance or futures contracts. Yet, for these instruments to function properly, there is a need for intervention coming either from regulatory institutions or farmers organisations.
- The success of grain farming is very much related to the success of grain cooperatives – these organisations have managed to introduce transparency and clear pricing rules to the sector. Cooperatives have managed to restructure the sector mainly by forcing other actors to use the same rules of transparency. However, this was also the competitive edge of these cooperatives which is now lost. In fact, there is a growing discontent among some groups of farmers related to how cooperatives operate. Cooperatives will have to find a new model to meet the needs of their members and to remain viable.
- Despite being the most productive sector of agriculture in Latvia, grain farmers face more pressing regulations as well as climate and environmental risks. The sector-wide challenges farmers face forces them to get involved in activities unrelated to wheat farming. Thus, diversification has become a way for farmers to manage risks. This process increases their resilience and independence.
- Urban dwellers who have bought a house in rural areas are becoming ever more visible in setting the rules for the development of the rural landscape. This group of people often have a particular vision of how the countryside should look which often conflicts with farmers' perspectives. Discussions between the two groups should be facilitated.



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